Risks of Investing in Unlisted Shares: What Every Investor Should Know

Investing in unlisted shares can provide investors with access to promising companies before they become publicly traded. However, unlike listed stocks that trade on recognized stock exchanges, unlisted shares come with unique risks that investors need to understand before investing.

While the potential for attractive returns can make unlisted shares appealing, investors should carefully evaluate liquidity, valuation, company information, exit opportunities, and regulatory considerations.

In this guide, we explain the **risks of investing in unlisted shares**, how they differ from listed stocks, and what investors should consider before making an investment decision.

What Are Unlisted Shares?

Unlisted shares are equity shares of companies that are **not currently listed on a recognized stock exchange** such as the NSE or BSE.

These may include shares of:

- Private companies
- Startups
- Pre-IPO companies
- Unlisted subsidiaries
- Companies preparing for a future IPO

Because these shares are not actively traded on a stock exchange, buying and selling them can be more difficult than trading listed stocks.

Why Do Investors Consider Unlisted Shares?

Investors may consider unlisted shares because they can provide an opportunity to invest in a company before it potentially enters the public market.

Some potential advantages include:

- Access to businesses before an IPO
- Opportunity to participate in a company's growth at an earlier stage
- Portfolio diversification

- Potential for capital appreciation
- Exposure to businesses that may not yet be available on stock exchanges

However, potential returns should always be considered alongside the risks.

7 Major Risks of Investing in Unlisted Shares

1. Liquidity Risk

One of the biggest **risks of investing in unlisted shares** is low liquidity.

Listed shares can generally be bought and sold through a stock exchange during market hours. Unlisted shares do not have the same level of market liquidity.

If you want to sell your investment, you may have to find a suitable buyer yourself or depend on a private transaction.

This means you may not be able to exit your investment when you want to.

Example

Suppose you purchase unlisted shares worth ₹2 lakh. Later, you urgently need the money.

If there is no buyer willing to purchase your shares, you may have to wait for an extended period or accept a lower price to complete the transaction.

Therefore, investors should avoid investing money in unlisted shares that they may need in the short term.

2. Valuation Risk

Determining the fair value of an unlisted company can be challenging.

Listed companies have continuously changing market prices because their shares trade on stock exchanges. Unlisted companies do not have a publicly quoted market price.

The price of an unlisted share may be influenced by:

- Company financial performance
- Private transactions
- Investor demand
- Future growth expectations
- Valuation reports
- Expected IPO valuation
- Industry conditions

A high purchase price does not necessarily mean that the company is worth that amount.

Investors should therefore conduct proper valuation analysis instead of relying solely on the expected future IPO price.

3. Limited Information and Transparency

Listed companies generally have extensive disclosure requirements.

Investors in unlisted companies may have access to less publicly available information compared with listed companies.

Depending on the company, investors may have limited access to:

- Detailed financial statements
- Regular business updates
- Corporate announcements
- Management information

- Future business plans
- Changes in financial performance

Before investing, investors should obtain and review as much reliable information as possible about the company.

4. Exit Risk

Buying an investment is only one part of investing. Investors also need to consider how they will eventually exit.

With listed shares, investors can generally sell through the stock exchange if there is sufficient market liquidity.

With unlisted shares, the exit process may be more complicated.

Possible exit routes may include:

- Selling shares to another private investor
- Selling shares back to existing shareholders
- Company buyback
- Secondary transactions
- Selling after an IPO, if the company eventually lists

However, none of these options should be assumed to be immediately available.

An investor should understand the potential exit route **before buying the shares**.

5. IPO Risk

Some investors purchase unlisted shares because they expect the company to launch an IPO.

However, an expected IPO is not a guaranteed IPO.

A company may:

- Delay its IPO
- Change its IPO plans
- Cancel the IPO
- Receive a lower valuation than expected
- Face regulatory or market challenges

Therefore, investors should not buy an unlisted share solely because they believe an IPO is coming soon.

The underlying business should remain the primary consideration.

6. Business and Financial Risk

Unlisted companies can face the same fundamental risks as listed businesses, including:

- Declining revenues
- Increasing debt
- Cash-flow problems
- Competition
- Regulatory changes
- Poor management decisions
- Changes in consumer demand
- Business model failure

In some cases, early-stage or private companies may have greater uncertainty because their businesses are still developing.

Before investing, examine the company's revenue, profitability, debt, cash flow, business model, management quality, and competitive position.

7. Price Volatility and Transaction Risk

Although unlisted shares do not have daily stock exchange prices, that does not mean they are risk-free from price fluctuations.

The value of an unlisted company can change significantly based on:

- Business performance
- Industry trends
- Funding rounds
- Market sentiment
- New competitors
- Regulatory developments
- Expected IPO prospects

There can also be differences between the price a seller is asking and the price a buyer is willing to pay.

This can make transactions more difficult and may increase the risk of buying or selling at an unfavorable price.

Listed Shares vs Unlisted Shares

Understanding the difference between listed and unlisted shares can help investors assess the risks involved.

Factor	Listed Shares	Unlisted Shares
Stock exchange listing	Yes	No
Market price	Generally available	May not be continuously available
Liquidity	Generally higher	Generally lower
Buying and selling	Easier through exchange	May require private transactions
Information availability	Generally higher	Can be more limited
Valuation	Market-driven	Can be more difficult to determine
Exit	Usually easier	May take longer
IPO dependency	No	May be relevant for some investments

How to Evaluate Unlisted Shares Before Investing

Investors should conduct proper due diligence before purchasing unlisted shares.

1. Study the Company's Financials

Review available financial information, including:

- Revenue growth
- Profitability
- Cash flow
- Debt
- Assets and liabilities
- Earnings trends

A company with strong revenue growth but consistently weak cash flow may require additional investigation.

2. Understand the Business Model

Ask yourself:

How does the company make money?

Understand its products, customers, competitors, revenue sources, and growth strategy.

A strong business model can be more important than a short-term valuation story.

3. Research the Management Team

Management plays a major role in the success of a company.

Look at:

- Promoters
- Directors
- Management experience
- Track record
- Corporate governance
- Previous business performance

4. Check the Valuation

Do not assume that an unlisted company is automatically attractive simply because it could potentially list in the future.

Compare the valuation with:

- Revenue
- Earnings
- Growth rate
- Industry peers
- Business fundamentals

5. Understand the Exit Strategy

Before investing, ask:

“How will I sell these shares?”

Understanding the potential exit route can help you assess whether the investment matches your financial goals and time horizon.

6. Verify Documentation and Transaction Details

Investors should carefully review the documents associated with the transaction.

Depending on the investment structure, this may include:

- Share purchase documentation
- Financial statements
- Shareholding details
- Transaction terms
- Company-related disclosures
- Applicable regulatory and tax considerations

When necessary, investors should seek advice from qualified financial, legal, and tax professionals.

Are Unlisted Shares Suitable for Beginners?

Unlisted shares may not be suitable for every investor.

They can involve greater complexity because of factors such as lower liquidity, limited price discovery, valuation uncertainty, and potentially longer investment horizons.

Beginners should first understand basic investing concepts and the risks associated with equity investments before considering less-liquid investments.

Most importantly, investors should never invest simply because someone promises high returns or claims that an IPO is guaranteed.

Common Mistakes to Avoid

Here are some mistakes investors should avoid when investing in unlisted shares:

❌ Investing Based Only on IPO Expectations

An IPO may be delayed or may not happen.

❌ Ignoring Valuation

A good company can still be a poor investment if purchased at an excessively high valuation.

❌ Investing Emergency Funds

Because liquidity can be limited, unlisted investments should not generally be treated like readily accessible savings.

❌ Relying on Unverified Information

Investment decisions should be based on reliable company information and proper due diligence.

❌ Ignoring Exit Conditions

Always understand how and when you may potentially exit the investment.

How to Manage the Risks of Unlisted Shares

Investors cannot completely eliminate investment risk, but they can take steps to manage it.

Consider:

1. **Diversifying your portfolio**
2. **Investing according to your risk tolerance**
3. **Avoiding excessive concentration in one unlisted company**
4. **Conducting thorough due diligence**
5. **Understanding the company's valuation**
6. **Maintaining a suitable investment horizon**
7. **Understanding the potential exit route**
8. **Taking professional advice when necessary**

Final Thoughts

Unlisted shares can provide investors with access to businesses before they become publicly traded, but they also come with significant risks.

The most important **risks of investing in unlisted shares** include liquidity risk, valuation uncertainty, limited information, exit risk, business risk, and uncertainty around potential IPOs.

Investors should therefore look beyond the possibility of high returns and focus on the fundamentals of the company, valuation, investment horizon, and exit strategy.

Remember: an investment opportunity is not necessarily a good investment simply because it is unlisted or expected to go public. Proper research and risk management are essential.

Frequently Asked Questions (FAQs)

1. What are unlisted shares?

Unlisted shares are shares of companies that are not listed or traded on a recognized stock exchange. They may belong to private companies, startups, or companies preparing for a possible IPO.

2. What is the biggest risk of investing in unlisted shares?

Liquidity risk is one of the major risks. Since unlisted shares do not trade continuously on a stock exchange, finding a buyer and exiting the investment may take time.

3. Can unlisted shares lose value?

Yes. The value of unlisted shares can decline due to poor business performance, changes in market conditions, valuation adjustments, competition, regulatory developments, or other factors.

4. Is an IPO guaranteed when buying unlisted shares?

No. A company's expected IPO is not guaranteed. The IPO may be delayed, changed, or cancelled depending on business, market, regulatory, and other circumstances.

5. Are unlisted shares suitable for beginners?

They may not be suitable for every beginner because they can involve lower liquidity, valuation uncertainty, limited information, and potentially longer holding periods. Investors should understand these risks before investing.

6. How can investors reduce the risks of unlisted shares?

Investors can manage risk through proper due diligence, diversification, valuation analysis, understanding the company's financials, and having a clear investment and exit strategy.

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shares, involves risk, and investors should conduct their own research and consult qualified professionals before making investment decisions.